



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Mary Mosiman, CPA  
Auditor of State

**NEWS RELEASE**

FOR RELEASE

January 8, 2014

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Grimes, Iowa.

The City's receipts totaled \$20,534,919 for the year ended June 30, 2013, a 37.4% increase from 2012. The receipts included \$5,588,201 in property tax, \$1,335,445 from tax increment financing, \$4,918,150 from charges for service, \$1,016,803 from operating grants, contributions and restricted interest, \$512,772 from capital grants, contributions and restricted interest, \$7,147,048 from general obligation bond proceeds and \$16,500 from unrestricted interest on investments.

Disbursements for the year ended June 30, 2013 totaled \$14,118,245, a 17.1% decrease from the prior year, and included \$3,734,868 for debt service, \$2,683,365 for capital projects and \$1,771,301 for public works. Also, disbursements for business type activities totaled \$2,880,485. The decrease in disbursements is due primarily to a \$2,411,625 decrease in capital projects because many projects were nearly complete at June 30, 2012.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1320-0719-B00F.pdf>.

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**CITY OF GRIMES**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2013**

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## City of Grimes

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Armstrong	Mayor	Jan 2014
Tami Evans	Mayor Pro tem	Jan 2016
Jill Altringer	Council Member	Jan 2014
Thomas Shatava	Council Member	Jan 2014
Mat Trapper	Council Member	Jan 2014
Craig Patterson	Council Member	Jan 2016
Kelley Brown	Administrator	Indefinite
Rochelle Williams	Clerk	Indefinite
Deborah Gallagher	Treasurer	Indefinite
Tom Henderson	Attorney	Indefinite

## **City of Grimes**



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Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grimes' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.


The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 26 and 44 through 46, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2013 on our consideration of the City of Grimes' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Grimes' internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 22, 2013



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Grimes provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2013 FINANCIAL HIGHLIGHTS

- The governmental activities property tax and tax increment financing receipts increased \$473,736 from fiscal year 2012 to fiscal year 2013. This is the result of the regular taxable valuation increase from \$382,998,224 to \$400,461,058. This has been a nice recovery given the downturn in the economy over the last several years. Over the past six years, the regular taxable valuation has grown from \$219,293,831 to \$400,461,058, resulting in an increase of \$181,167,227, or 82.6%.

Receipts and transfers of the City's governmental activities increased 44.1%, or \$5,178,909, from fiscal year 2012 to fiscal year 2013. A \$6,000,000 bond issue accounts for most of this increase. Discounting the bond issue, the lease, grants and other general receipts, the proceeds increased \$598,572, or 6.9%. Fiscal year 2013 continued to be very busy for the City as there was a spike in building permits and plat development as the economy continues to recover. The Highway 44 Project has now been completed and the SE Main Street project is finally underway. Other substantial projects, such as the drilling of the new Jordan Well, the HMA paving project and the Water Main replacement project, were all either completed or are underway in fiscal year 2013.

Although construction has experienced a somewhat roller coaster effect over the last few years, with an increase in fiscal year 2010 and a decrease in fiscal year 2011, building permits started back on the rise in fiscal year 2012 and that trend continued for fiscal year 2013. In fiscal year 2011, building permit fees decreased approximately \$93,000. However, they increased \$88,035 in fiscal year 2012, almost making up the difference, and they increased an additional \$14,515 in fiscal year 2013. In fiscal year 2011, water tapping fees decreased approximately \$77,000. However, there was an increase of \$114,142 in water tapping fees in fiscal year 2012, a net increase of \$37,142 over the last two years. That trend has decreased slightly from fiscal year 2012 as \$39,709 less was received, largely due to fewer commercial buildings which have tapping fees based on their acreage. Sewer tapping fees also followed the trend, decreasing approximately \$85,000 in fiscal year 2011 but increasing \$133,756 in fiscal year 2012, a net increase of \$48,756 in the those two years. In fiscal year 2013, there was a dip of \$57,656, which again is the result of less commercial development. Indicative of an increase in actual plat development, building development fees, which are the reimbursement of billed engineering and inspection fees for the site plans, plats and public infrastructure improvements, showed an even greater rebound from the increase from \$44,690 in fiscal year 2010 to \$54,620 in fiscal year 2011 to \$111,738 in fiscal year 2012, which more than doubled, and now \$156,442 in fiscal year 2013. Consistent with this trend, disbursements for engineering and inspection fees also increased after the initial decrease from \$76,125 in fiscal year 2009 to \$70,459 in fiscal year 2010, \$74,791 in fiscal year 2011, \$156,652 in fiscal year 2012 and \$153,116 in fiscal year 2013. Although fiscal year 2013 is a little less than fiscal year 2012, part of that can be explained by the timing of payments. Overall, the picture that is being painted is one of overall growth and healthy development. New plats continue to be on the rebound! Permitting and construction are on the move and the City of Grimes continues to be on the forefront of development.

Even during the downturn in building overall, commercial valuation continued to increase. Starting in fiscal year 2003, commercial valuations have grown over the years from \$62,873,157, \$63,462,659, \$76,457,880, \$80,700,405, \$99,563,533, \$114,571,090, \$136,366,480, \$151,167,840, \$162,868,450, \$154,538,120 and now, in fiscal year 2013, \$148,791,500. The County Assessor had cautioned cities in Polk County overall valuations could decrease an average of 4%, with commercial valuation being affected the most. The initial decrease between fiscal year 2011 and fiscal year 2012 was \$8.3 million, a little over the average of 5.1%, and the continued decrease of \$5.7 million reflects an overall decrease of 8.5% over the last three years. Overall, commercial valuation has increased \$85,328,841, or 134.5%, over the last ten years. A growing community always needs to maintain a healthy balance of commercial and residential development to help maintain taxes at a consistent level. Currently, commercial valuation accounts for 37.5% of the City's taxable valuation.

Because of the proceeds from a \$6 million bond issue for the SE Main Street Project and the SE 37<sup>th</sup>, SE 19<sup>th</sup>, Autumn Park drainage and Chevalia Bridge projects, the cash balance increased \$6.4 million from June 30, 2012 to June 30, 2013. The cash balance at June 30, 2012 was \$9,368,386 and it was \$15,785,060 at June 30, 2013.

The trend for road use tax receipts seems to be inconsistent. In fiscal year 2007, there was a slight decrease of \$2,231. In fiscal year 2008, receipts increased \$13,645, in fiscal year 2009, receipts decreased \$15,844 and in fiscal year 2010, receipts increased \$31,797, which doesn't include the \$25,603 of I-Jobs Road Use Tax (RUT) money. In fiscal year 2012, \$811,999 was receipted in RUT, \$120,438 of which was loan proceeds for the plow truck, \$31,153 was I-Jobs and \$63,498 was a refund, leaving a balance of \$596,910. In fiscal year 2012, the net proceeds were \$782,142, which was an increase of \$185,232, or 31%. In fiscal year 2013, the net proceeds were \$789,686, which is an increase of \$7,544, or .96%.

When the new Census numbers were certified, the City of Grimes received a larger allocation of RUT funds. All cities in Iowa receive RUT funds. These are distributed equally on a per capita basis. The *Code of Iowa*, Chapter 312.14, requires cities which receive an allotment to prepare an annual report showing receipts and disbursements for street-related activities. This annual report is not limited to RUT funds. It includes all receipts and disbursements spent on streets. This report is called the Street Finance Report from the Iowa Department of Transportation (IDOT) and is filed with IDOT each year. In fiscal year 2012, the amount disbursed was \$91.25 per person, was \$94.00 per person for fiscal year 2013 and is expected to increase to \$95.50 per person for fiscal year 2014.

The Grimes Community Complex (the old Dallas Center-Grimes Middle School) was opened in the summer of 2006 for use by the Summer Recreation program. The use of the building has been expanded to include the leasing of four rooms to the YMCA and the leasing and renovation of another three rooms for the combined use of a church or large group meeting room. The Grimes Historical Room was opened three years ago in the spring and was the result of an Eagle Scout project. One room has been set up as a batting cage and another for cycling. Hours for general use have been expanded and include having a person on staff during normal hours to alleviate the need for key card access in most situations. A more comprehensive use policy has been implemented, which gives all City of Grimes residents two hours of free rental for most rooms for special occasions. This new programming and rental programs have accounted for \$623,477 in additional receipts over the last six years and \$126,639 in receipts for fiscal year 2013 alone.

Fire and rescue charges increased \$76,190, from \$78,162 to \$154,352, due to an increase in collections from fiscal year 2012 and an increase in the number of calls. The County library tax subsidy from the Polk County Board of Supervisors decreased \$3,709 and is expected to decrease every year until this program is phased out.

All in all, given the climate of the County, the City of Grimes stood strong and continues to grow. As always, the philosophy of the City Council and City staff continues to focus on efficiency and quality of services. Good solid management practices continue to facilitate prudent uses of resources.

- Disbursements for the City's governmental activities decreased \$3,136,824, or 21.8%, from fiscal year 2012 to fiscal year 2013. The net difference in disbursements, after eliminating the effects of capital projects and debt service, is an actual decrease of \$794,049, from \$5,613,576 in fiscal year 2012 to \$4,819,527 in fiscal year 2013. Spending for the public safety function remained basically the same with a nominal decrease from \$1,792,889 to \$1,771,301. An ambulance was purchased in fiscal year 2012, which accounts for the decrease in disbursements in fiscal year 2013. Disregarding the ambulance purchase, the public safety function increase can be accounted for by the increase in the Polk County Sheriff's contract. The City of Grimes and Polk County are in the third year of a three-year contract whereby the City has incurred stair step increases in its contributions to the County so the County isn't contributing as high of a percentage of the disbursements of this contract. The 2011/2012 contract was set at \$592,569 annually. The 2012/2013 contract was set for an increase of \$30,103 and the 2013/2014 contract is set for an additional increase of \$31,377. The City of Grimes also hired an additional full time paramedic/fire fighter in fiscal year 2010, increasing the current staff to three full time and an additional full time-equivalent paramedic/fire fighter to be on staff during the day, for an increase in spending of \$72,233 in fiscal year 2010 and an increase in calls resulted in an increase of \$24,348 in fiscal year 2011. In fiscal year 2012, the increase for the fire department accounted for \$273,730, mostly due to the purchase of the new ambulance and a reallocation of worker's compensation fees. In fiscal year 2012, the new Johnston Public Safety Building was opened along NW 62<sup>nd</sup>/SE 19<sup>th</sup> Street. It is strategically located to serve areas in both Johnston and Grimes less readily accessible from the existing building locations. As part of a cooperative effort, the City of Grimes has hired two additional paramedic/firefighters to help staff this building, which accounts for an additional \$79,626 in wages alone. Engineering disbursements increased \$53,815 due to the increase in building, review fees and development fees. The Building Department also contributed \$4,394 to the Metro Home Improvement Program in fiscal year 2012, which accounted for most of the increase from \$20,288 to \$25,082. Approximately \$25,000 is paid out every two years. However, the 2013-2014 payment was already paid in fiscal year 2013 so the expense remained at about \$25,285. The Metro Home Improvement Program is an amazing owner occupied rehabilitation improvement program with the purpose to preserve the existing affordable housing stock in the participating communities.
- Public works function disbursements decreased \$862,935. The major decrease between the two years is that the lease proceeds for the end loader and street sweeper was receipted into and paid out of the Road Use Tax Fund (RUT) in fiscal year 2012. The trend for completing street improvements continued into fiscal year 2013, although \$376,000 less was expended. In fiscal year 2013, the SE 37<sup>th</sup> Street Traffic Signals were installed, the 82<sup>nd</sup> Ave cooperative overlay with Polk County was completed and the Library parking lot was paved. As well, one installment payment for the railroad abandonment was expended. In fiscal year 2008, the City purchased the old elevator property and demolished the elevator and all of the grain storage bins in this area. The Railroad has agreed to abandon the line to just south of South 11<sup>th</sup> Street, which will eliminate seven railroad crossings. Removing the railroad tracks will save the City significant disbursements when it comes to having to repair and upgrade all of the railroad crossings. The City spent approximately \$176,000 of capital improvement funds to demolish the buildings and clean up the land. In addition, a new metro salt storage facility was constructed in the southern industrial area of Grimes. This facility will potentially reduce costs for metro cities by being able to purchase in larger bulk quantities without storage concerns. \$47,000 was disbursed in fiscal year 2009, \$38,800 in fiscal year 2010 \$38,600 in fiscal year 2011, \$14,812 in fiscal year 2012

and \$14,698 in fiscal year 2013 as part of the City of Grimes' investment. As was consistent across the State of Iowa, snow removal costs were relatively the same as in fiscal year 2012, with a slight decrease of \$1,370 in this area.

- Culture and recreation function spending decreased \$24,267. A majority of this decrease can be accounted for in the Cemetery expansion project. This project added 704 lots to the existing cemetery, as well as paving, a gravel parking lot, seeding and a landscaping amenity, for a total of \$144,139 expended in fiscal year 2011 and \$14,297 in fiscal year 2012. After eliminating the Cemetery expansion project, the culture and recreation function actually decreased just \$9,970. The Library increased a little over \$29,000 due to materials acquisitions and building and grounds. The Library has also hired an architect and is planning an expansion project with the ultimate build-out estimated at over \$11,000,000. The Library has been evaluated and it has been determined, based on the amount of circulation and the size of the City of Grimes, the Library is significantly undersized. The first phase was to hire an architect who could propose plans to solve the space issue. The next phase was the hiring of consultants to complete a feasibility study of what realistically could be obtained through fund raising efforts before the issue is brought to a vote of the citizens. The feasibility study was completed and it was determined the current economic climate is still a little cautious when it comes to expending money for fundraising efforts such as the library expansion. The Library Board was given the task of developing a plan to remodel the existing space and make it more efficient. Park and recreation costs actually decreased almost \$26,200, mostly due to the drought and the decreased associated costs in fertilizing or overseeding the park grounds. Both the Library and the park and recreation staff costs increased slightly, but only due to wage increases and a slight increase in hours due to increased programming and needs of the community. In fiscal year 2009, a complete upgrade to energy efficient lighting in the Grimes Community Complex (GCC) was completed at a cost of \$34,552 and in fiscal year 2010 the City completed a HVAC Public Improvement Project to completely convert the GCC's heating and cooling systems. In addition, the City expended \$46,500 to convert a generator and the electrical system in the GCC to be able to sustain power in the event of a power outage. The GCC is the designated shelter in the event of heat or extreme cold emergencies. As part of the SE Main Street project, the northern parking lot was also resurfaced and the road and parking in front of the building was reconstructed. The City Council recently let a \$855,000 project to grade, irrigate, seed and extend utilities through the North Sports Complex located just west of the recently constructed North Ridge Elementary School. This project is still in process. Unfortunately, it was expected to be seeded and have a season of growth underway. However, due to the extreme drought, both sprinkler systems at the South and North Sports Complexes were shut down in 2013 to conserve water as they had been during the drought of 2012.
- Community and economic development disbursements remained approximately the same in fiscal year 2013, with only a \$248 decrease. These are disbursements from the City to the Grimes Chamber and Economic Development Organization. They vary depending upon the needs of the organization. They decreased approximately \$48,000 in fiscal year 2010 because a \$50,000 economic development grant was disbursed in fiscal year 2009. In fiscal year 2011, disbursements increased approximately \$1,200 and in fiscal year 2012 they increased \$8,537. Whenever Hotel/Motel taxes increase, the amount disbursed to the Des Moines Visitors and Convention Bureau increases as well. Notable capital improvements for fiscal year 2010 include the completion of the East 1<sup>st</sup> Street improvement project, including lighting and beautification, to facilitate the development of Walmart, the YMCA and the development typically surrounding large box users. In addition, SE 37<sup>th</sup> Street was completed, which included a 5 inch asphalt overlay to extend the life of the road until a complete rework is needed. The Gateway Drive Extension and SE 11<sup>th</sup> Street Signal project were completed and the Edgewood Drive water main extension, which facilitated better water pressure in the Capitol City

Area, and the loop of the mains on the east side of Highway 141 were completed. The second concession stand was also completed at the South Sports Complex. This concession was a combination effort between the City of Grimes and the Connor Schnell Family Memorial for the financing of this project. The South James Street Project was also completed using ARRA funds. The focus in fiscal year 2012 was the City's biggest road project ever, the almost \$8,000,000 East 1<sup>st</sup> Street (aka Highway 44) road improvement project. It was originally scheduled to be completed in the fall of 2010. However, due to excess rain conditions, less than 50 working days were completed. This project provided for a center turn-only lane through the entire City and will then transition into a two lane boulevard on the western section of the developed town. The James Street intersection now has left turn-lanes and a signal was installed at Main and E 1<sup>st</sup> Street. All in all, this is a beautiful project and has greatly enhanced the transportation system of the City of Grimes. Other projects completed in fiscal years 2012 and 2013 were the Cemetery expansion project and the preliminary work completed to determine if the old City well could be converted into an aquifer storage recovery (ASR) well which could greatly delay the need for a new expansion to our current water plant. This year the results from the preliminary tests showed the old well should be able to be restored and used as an ASR. The casing was lined after a significant delay due to the need to drill through the old pump to install a new one. Testing for the actual recovery of the well was initially planned for this summer. Again, due to the drought, there wasn't the additional pumping capacity available to be able to fill this well so it could be tested. Plans are to continue later this fall. The Outfall Sewer and Creek restoration project was also let in the fall of 2011. This project consisted of the installation of both 48" and 36" sanitary sewer mains needed to increase the flow capacity of the eastern side of the City of Grimes. As well, creek improvements along Little Beaver Creek were completed to clean up and grade the banks to improve the drainage along this channel. Last fall, the Chevalia Bride project was awarded that added a bridge and trail along the north central part of Grimes. As well, a water main replacement project was started to replace certain areas identified as having numerous water main breaks over the last several years. Temporary signals were installed at SE James Street and SE 37<sup>th</sup> Street, as well as some additional paving projects.

- No doubt the water issue was the priority over the last few years. The drought of the summer of 2012 had long-lasting effects on the City's shallow wells. A water mitigation program was approved by the City Council in late 2012 as a proactive measure in the event the City would have to manage the water usage in the summer of 2013. In addition, the project to build a new Jordan well at over 2,800 feet was awarded in late winter at an approximate cost of \$2,000,000. This new well would not be influenced by drought conditions. As stated above, the ASR testing also was delayed because the City didn't want to use shallow well water for this use. An emergency connection with Xenia was also part of the original plan. However, the heavy rains in the Spring delayed the need to pursue this option. As the summer progressed, the need to enter into Stage 1 of the Water Mitigation plan became apparent because the new water plant could not pump enough to keep up with the demand. To supplement the water supply, the old Jordan well plant was put back into service. In August, the levels of the shallow wells had dropped to the point the City was put into Stage II of the Water Mitigation plan. In mid-September the emergency connection to Xenia was established and the City dropped back into Stage I of the plan. Currently, there have been numerous delays of the drilling of the new well. It is not known at the present time when this will be completed.
- General government function disbursements decreased approximately \$88,000 in fiscal year 2011, only increased \$12,388 in fiscal year 2012 and now have increased almost \$121,000 in fiscal year 2013. Most of the original decrease in fiscal year 2011 was due to the large reduction in legal fees from the previous year when an assessment case went to court and a decrease in liability insurance costs to the General Fund. Increases were noted in health insurance premiums, legal fees, utilities, building and

grounds and administrative salaries in fiscal year 2012 and one of the major increases in fiscal year 2013, both in terms of disbursements but more importantly in efficiency, was the purchase of IPADS. The Mayor, City Council and key staff were issued IPADS for their use. As well, IPADS are used for the remaining Boards and Commissions with the goal to become more green and efficient as we move forward. Legal fees also increased over \$25,000 as a result of a bond issue and two refinancings which will more than save the legal fees in reduced interest. Also of interest, the City Council approved \$25,000 for the production of a commercial to be produced by the Communities of Distinction by Terry Bradshaw.

- The City's governmental activities total cash basis net position increased 89.7%, or \$5,684,243, from June 30, 2012 to June 30, 2013. A majority of this increase can be accounted for by the \$6 million bond issue passed in December. The City has passed three bond issues in the last five years. A \$5.2 million bond issue was passed in August 2007. \$700,000 was received for the purchase of park land adjacent to Northridge Elementary School and the remaining \$4.5 million was for road construction for the South 19<sup>th</sup> and Little Beaver Assessment Project, the finalization of the 54<sup>th</sup> Avenue and South 6<sup>th</sup> Street Assessment Projects and the South 11<sup>th</sup> Street Assessment Project. The second bond was a \$10 million bond issue passed in November 2009. The use of the 2010 bond issue was as follows: the demolition of the elevator buildings (\$270,000), the GCC HVAC project (\$463,000), the Comprehensive Plan (\$85,000), Map updates (\$50,000), Phase I Storm Water Implementation (\$70,000), SE Capitol City Pavement repairs: \$165,000, E 1<sup>st</sup> St Improvements 2009: \$1,300,000, SE 37<sup>th</sup> Street Overlay (\$625,000), S James Improvements (\$1,700,000), NW 142<sup>nd</sup> and 82<sup>nd</sup> Ave overlay: \$100,000, NW 78<sup>th</sup> overlay: \$50,000, Gateway Dr Extension: \$270,000, 1<sup>st</sup> Street (Highway 44) (\$2,772,000), Outfall Trunk Sewer (\$1,400,000), water main extension and water tower painting (\$370,000) and QT Improvements (\$22,500). The rest was either part of the bonding fees or was disbursed on other infrastructure improvements. Last fall, a \$6.0 million bond was issued to fund the reconstruction of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100<sup>th</sup> and SE 37<sup>th</sup> Street Improvements (\$656,000), Autumn Park Drainage Improvements (\$325,000), Chevalia Bridge and Trail work (\$110,000), SE 19<sup>th</sup> Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615).
- Lastly, a new addition to the Cemetery has now been completed. The new addition features the extension of the current roads, 704 new burial plots and an added berm and landscaping to shelter it from the green space to the south which is now being used for soccer fields.

The General Fund cash balance increased \$520,480. The Special Revenue, Road Use Tax Fund cash balance increased \$370,746. The Debt Service Fund cash balance increased \$173,340 because proceeds accumulating from developer assessments are not sufficient for prepayment on the bond at this time and proceeds from the completion of the SE 37<sup>th</sup> Street assessment project. Build America Bond interest is credited in the Debt Service Fund. The Capital Projects Fund balance increased \$ 4,581,260, mostly due to the \$6,000,000 bond issue as noted above. The other nonmajor governmental fund cash balances increased \$34,645, mostly due to an increase in employee benefits property tax receipts and conservative spending. The City Council continues to be prudent in its budgeting and has heeded previous cautions by auditors to use fund balances versus tax collections wherever possible.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system, the sanitary sewer system and solid waste disposal and storm water system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City, and the Solid Waste and Storm Water Funds.

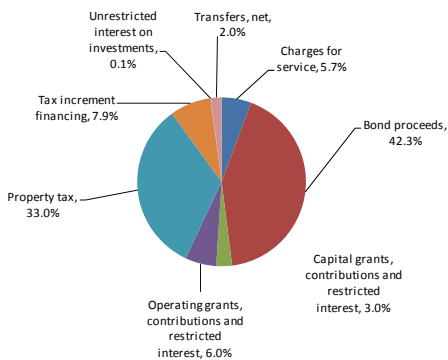
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

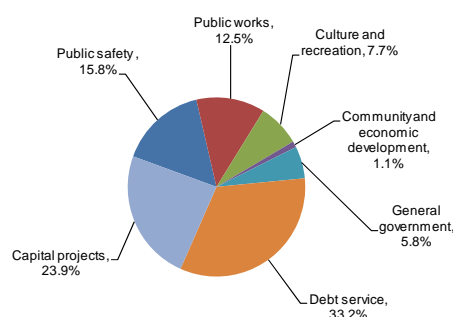
Net position may serve over time as a useful indicator of financial position. The cash balance increased over this last year, from approximately \$6.336 million to approximately \$12.020 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2013	2012
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 965,251	820,337
Operating grants, contributions and restricted interest	1,016,803	1,027,391
Capital grants, contributions and restricted interest	512,772	1,380,479
General receipts:		
Property tax	5,588,201	5,287,983
Tax increment financing	1,335,445	1,161,927
Unrestricted interest on investments	16,483	23,133
Bond proceeds	7,147,048	1,250,000
Lease proceeds	-	347,310
Other general receipts	-	101,694
Transfers, net	340,000	342,840
Total receipts and transfers	16,922,003	11,743,094
Disbursements:		
Public safety	1,771,301	1,792,889
Public works	1,401,187	2,264,122
Health and social services	-	5,809
Culture and recreation	869,581	893,848
Community and economic development	122,300	122,548
General government	655,158	534,360
Debt service	3,734,868	3,666,018
Capital projects	2,683,365	5,094,990
Total disbursements	11,237,760	14,374,584
Increase (decrease) in cash basis net position	5,684,243	(2,631,490)
Cash basis net position beginning of year	6,336,344	8,967,834
Cash basis net position end of year	\$ 12,020,587	6,336,344

Receipts by Source



Disbursements by Function





The City's total receipts and transfers for governmental activities increased 44.10%, or \$5,178,909. The total cost of all programs and services decreased 21.82%, or \$3,136,824. No programs were deleted this year and there continues to be an increase in the recreational programming at the Grimes Community Complex. A significant increase in tax receipts resulted from an increase in regular taxable valuation, from \$382,998,224 to \$400,461,058. Regular taxable valuation increased 4.36%, or \$17,462,834. Property tax receipts, not including TIF collections or other city taxes, increased \$300,218. TIF collections increased \$173,518 as a result of certifications of increased increments for developer rebate agreements. The City also received loan proceeds from a \$6,000,000 bond issue. In fiscal year 2012, the City received \$1,187,975 of federal and state funding and reimbursements for the Highway 44 project which accounts for the difference.

The City's property tax rates for fiscal year 2013 increased ever so slightly, with a tax rate of \$12.90968 per \$1,000 of taxable valuation versus \$12.90318 per \$1,000 of taxable valuation for fiscal year 2012. The rollback percentage increased from 44.08% to 45.589% from fiscal year 2009 to fiscal year 2010, increased again in fiscal year 2011, from 45.589% to 46.909%, increased in fiscal year 2012 to 48.5299% and is currently 50.751%. The net result of the slight tax rate increase and the increase in the rollback percentage resulted in a net increase in property tax to the property owner. In fiscal year 2009, the tax actually decreased \$26.23 and then increased \$26.55 in fiscal year 2010, so the net effect over those two years was 22 cents! In fiscal year 2011, the difference to a property owner with a home valued at \$150,000 was an increase of \$24.84 because of the rollback increase of over 1.32% of the value of the property. In fiscal year 2012, the net effect of the rollback increase was \$30.87 for the same property. In fiscal year 2013, the net effect of the rollback increase was \$43.46. The residential rollback percentage is projected to increase again for fiscal year 2014 to 52.8166% and the tax rate has increased slightly, to \$12.91302 per \$1,000 of taxable valuation. This nominal increase, coupled with the increase in the rollback, has the result of increasing the net city taxes paid by the homeowner of that same \$150,000 home by \$38.69. Over the course of three years, the tax impact has increased slightly. Note, however, the tax levy to property owners is affected by other factors, such as an overall increase or decrease in the valuation of their property or any changes in school, county or other tax levies. It is important to note all of the examples are calculated on the premise the valuation of the home did not decrease. The Polk County Assessor has stated the average valuation in Polk County was reduced by 4% between the 2009 and 2011 valuation years. Over the last five years, the roll back has increased from 44.08% to 50.751% or 6.671%. If the average valuation has decreased 4%, then the net effect to a homeowner would only be a 2% increase over those five years versus a 6.67% increase. Looking back over the history of the school tax rates and tax rates over the last five years, the rates have remained constant. For example, the Dallas-Center Grimes (DC-G) tax rate started with \$41.15578 in fiscal year 2010, then increased to \$41.23237, \$41.23554, \$41.4471 and will be \$42.161 per \$1,000 of taxable valuation in fiscal year 2014. The DC-G school's portion of the rates has increased from \$17.50348 in fiscal year 2010 to \$17.84474 in fiscal year 2014. Other tax rate increases per \$1,000 of taxable valuation include: County up \$.12, Hospital up \$.19, Regional Transit up \$.27 and Area XI College up \$.12.

The cost of all governmental activities this year was approximately \$11.237 million compared to approximately \$14.375 million last year. However, as shown in the Cash Basis Statement of Activities and Net Position on pages 28-29, the amount taxpayers ultimately financed for these activities was only \$8.743 million because \$965,251 of the cost was paid by those directly benefiting from the programs. \$1,016,803 was paid by other governments and organizations which subsidized certain programs with operating grants, contributions and restricted interest and capital grants, contributions and restricted interest (developer agreements, etc.) of \$512,772 were received. Overall, the City's governmental activities receipts and transfers, including intergovernmental aid and fees for service, increased in fiscal year 2013 from \$11,743,094 to \$16,922,003, principally due to the \$6 million bond issue and more property tax, offset by a decrease in capital grants from IDOT for the Hwy 44 project reimbursements. The City paid for the remaining "public benefit" portion of governmental activities with \$6,923,646 of tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 2,090,203	1,949,085
Sewer	1,460,411	1,353,783
Solid waste	256,690	240,366
Storm water	145,595	-
General receipts:		
Unrestricted interest on investments	17	-
Total receipts	3,952,916	3,543,234
Disbursements and transfers:		
Water	1,671,876	1,493,791
Sewer	904,413	861,335
Solid waste	304,196	295,426
Transfers, net	340,000	342,840
Total disbursements and transfers	3,220,485	2,993,392
Increase (decrease) in cash basis net position	732,431	549,842
Cash basis net position beginning of year	3,032,042	2,482,200
Cash basis net position end of year	\$ 3,764,473	3,032,042

Total business type activities receipts for fiscal year 2013 were approximately \$3.95 million compared to approximately \$3.54 million last year. This increase was due primarily to an overall increase in users for every utility, as well as the new storm water utility fee passed in January and first billed in February 2013.

The cash balance increased \$732,431 over the prior year. Receipts increased 11.56% and disbursements and transfers increased 7.58%. Thus, the overall effect of the prior year's increase in net position of \$549,842 totaled an overall increase of \$1,282,273 over the past two years. This increase resulted from the increase in water receipts, an increase in sewer receipts and increases in water and sewer tapping fees from new construction, as well as the new storm water utility fee. Total disbursements and net transfers for the fiscal year increased from approximately \$2.993 million last year to approximately \$3.220 million for fiscal year 2013. This was an increase of \$227,093, or 7.59%.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Grimes completed the year, its governmental funds reported a combined fund balance of \$12,020,587, an increase of \$5,684,243 from last year's total of \$6,336,344. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$520,480 over the prior year to \$4,202,292. This increase was due to the increase in total valuation, resulting in an increase in property tax received as well as large increases in licensing and permitting. General Fund receipts increased \$235,570 and disbursements increased \$75,104. The City continues to monitor taxes and ending fund balances to determine the ideal balance between having money in reserve for unforeseen emergencies versus keeping taxes at a consistent level.
- The Special Revenue, Road Use Tax Fund cash balance increased \$489,270 during fiscal year 2009 to \$53,823, \$8,683 during fiscal year 2010 to \$45,140, \$306,213 to \$351,353 in fiscal year 2011, decreased \$83,960 in fiscal year 2012 and now has increased \$370,746 in fiscal year 2013 to an ending balance of \$638,139. This

original decrease was due largely to the purchase of the old elevator building and property along West 1<sup>st</sup> Street (Highway 44) which was needed for right-of-way for the expansion of West 1<sup>st</sup> Street to a 3-lane roadway and for the cleanup and demolition of this entire area. The ending balance of \$351,353 at June 30, 2011 was held to facilitate road construction projects in fiscal year 2012. Only \$319,576 was expended in fiscal year 2013, which will greatly facilitate the completion of other road maintenance projects in fiscal year 2014. The City is committed to the continued use of road use tax receipts for major construction projects versus operation of the street department.

- The Special Revenue, Tax Increment Financing Fund (TIF) was established years ago to finance projects whereby an investment by the City in infrastructure results in an overall larger tax base. The premise of the use of TIF can be illustrated in this example. The City of Grimes designated the area east of Little Beaver to Highway 141 and south to Urbandale as an urban renewal area. The City issued bonds and used TIF financing to pay for the sewer, water, road improvements and the signals at 54<sup>th</sup> Street and Highway 141. As a result of that investment, this area has been converted from fields into businesses. The increase in tax receipts obtained from the growth in this urban renewal area is first used to pay off the debt incurred to extend the utilities to this area. After the debt has been paid, the City, County and School District gain the benefit of the increased tax receipts. The resulting benefit to the citizens of the City of Grimes and the Dallas Center-Grimes School District is an increase in the valuation of the City, resulting in increased tax receipts to provide services. Traditionally, the City Council has only used TIF financing to promote commercial or industrial development. These are taxed at 100% of their valuation versus residential valuation which is taxed at 50.751% for fiscal year 2013. The City is currently certifying TIF debt for the payment of the utilities extended in the example above, transportation, trail system planned improvements, Sports Complex North, signals at Highway 141 and NW 62<sup>nd</sup>/SE 19<sup>th</sup> Street, the fire station addition, Sports Complex and the paving of James Street. The area east of Highway 141 South and south of South 11<sup>th</sup> Street was amended into the urban renewal area so TIF financing could be used for the signals at Highway 141 and NW 62<sup>nd</sup>/SE 19<sup>th</sup> Street and for the South 11<sup>th</sup> Street project. The City has also completed the process of amending the remaining portion of the annexed area into the urban renewal area to give the City ultimate flexibility for the use of TIF for economic development as well as improvements to lower valued properties. TIF has recently been used in developer agreements, whereby the developer fronts the money for the infrastructure improvements. The developer is then repaid its investment from the tax generated from the increment in valuation caused by development of the property. The developer is given the incentive to repay its self-incurred debt from the timely development of the property.

At the end of the fiscal year, the TIF cash balance was \$26,215, an increase of \$3,772 from the previous year. The City only certifies enough TIF receipts to pay off the current year's portion of the debt each year. If the resulting taxes generated from the increment in valuation are more than needed to make the bond payments, the City, the County and the School District receive the benefit of the tax revenue. This year, the City certified \$1,332,000.

- The Debt Service Fund cash balance increased \$146,566 to \$1,283,989 during fiscal year 2009, increased to \$1,375,063 during fiscal year 2010, \$1,863,361 during fiscal year 2011, increased \$226,271 to \$2,089,632 during fiscal year 2012 and increased \$173,340 to \$2,262,972 during fiscal year 2013. The increases are due to the receipt of developer reimbursement proceeds from the South 19<sup>th</sup> Street and Little Beaver assessment projects, as well as the 54<sup>th</sup> Ave. Road assessment project, the South 6<sup>th</sup> Street assessment project, the SE 37<sup>th</sup> Street assessment project and the East 1<sup>st</sup> Street assessment project. The developer reimbursement proceeds will be held until the bonds can be called.

- The Capital Projects Fund cash balance increased from \$(975,129) to \$4,769,777 in fiscal year 2010, decreased \$1,890,004 to \$2,879,773 in fiscal year 2011, decreased another \$3,019,270 to \$(139,497) in fiscal year 2012 and increased \$4,581,260 in fiscal year 2013. The negative balance in the Capital Projects Fund in 2012 was reimbursed with additional TIF funds for the North Sports Complex and the passage of the \$6,000,000 bond issue this last fall, leaving the current balance for the CIP projects of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100<sup>th</sup> and SE 37<sup>th</sup> Street Improvements; \$656,000, Autumn Park Drainage Improvements: \$325,000, Chevalia Bridge and Trail work (\$110,000), SE 19<sup>th</sup> Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615).

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- In fiscal year 2011, the Enterprise, Water Fund cash balance decreased \$116,481 to \$1,190,053, due primarily to water receipts decreasing from fiscal year 2010 to fiscal year 2011 due to industry reductions as well as operating costs increasing. In addition, the balance allowed \$200,000 to be transferred to the Capital Projects Fund. In fiscal year 2012, the cash balance increased \$255,294, more than making up the difference from fiscal year 2011. In fiscal year 2013, the cash balance increased \$218,344 to an ending balance of \$1,663,691. Water operations receipts account for this increase. In addition, the drought accounted for the higher consumption as the new sod for all of the new construction warranted constant watering. In fiscal year 2013, water receipts increased \$141,118. There was also an increase in disbursements of \$178,085 from fiscal year 2012 to fiscal year 2013.
- In fiscal year 2011, the Enterprise, Sewer Fund cash balance decreased \$1,009 from \$1,288,135 to \$1,287,126, increased \$292,448 in fiscal year 2012 and increased another \$355,998 in fiscal year 2013. Receipts increased \$106,628 and disbursements increased \$43,078. This balance also allowed for \$200,000 to be transferred to the Capital Projects Fund. Again, similar to the Water Fund, Sewer Fund receipts increased due to the increase in housing and new users.
- Although these are nonmajor funds, the Solid Waste Fund continues to be subsidized using emergency levy tax dollars. Also of note, the City Council enacted the storm water utility fee in January 2013. \$145,595 was received in fiscal year 2013.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. This amendment was approved on March 12, 2013. This amendment provided for an increase in receipts for licenses and permits of \$90,000, \$153,511 in intergovernmental for road use tax, \$209,486 for charges for service and \$4,268,980 to provide for the bond issue and refinancing. Although the bond issue was \$6,000,000 and the bond proceeds were receipted in the Capital Projects Fund, some of the proceeds had been anticipated and included in the original fiscal year 2013 budget so the entire \$6,000,000 adjustment was not needed. All of the remaining programs were estimated to remain the same. The budget amendment also provided for an increase in disbursements of \$1,520,985. Public safety function disbursements increased \$44,274, mainly due to the increase in engineering costs, both internal and those billed for reimbursement by developers due to the increase in building and permits. Culture and recreation function disbursements increased \$82,544 to account for increased programming and improvements to the Grimes Community Complex. Debt service function disbursements increased \$1,080,175 due to the refinancing of the 2003 bond issue. When a bond is refinanced, the actual payment for the bond redeemed has to be run through the City budget so it has to be accounted for. Lastly, all three business type activities, water, sewer and solid waste, increased \$248,000. Water and sewer increased because of increases in sales tax and production costs and the addition was made for the new storm water utility. The City traditionally amends the budget in the last quarter of the fiscal year because the exact timing and payment of capital improvement projects is seldom known at the time the original City budget is certified in March of the previous year.

When all was said and done and the final numbers were calculated as of June 30, 2013, the variations between what was budgeted and what was actually received or disbursed are as follows. First of all, the culture and recreation function had another great year. The function was \$217,271 under budget. Parks and recreation was under budget because of savings in mowing, weed control and overseeding due to the drought. In 2009, there was a substantial investment in grub mitigation. That continues to be an aspect of the park system which is monitored. The trees are being monitored as well for the Emerald Ash Borer. This could have a large impact on the budget to mitigate the damage and replant with new trees. The expansion of programming for the overall park and recreation system has been phenomenal, as well as the interest in youth and adult programs. Gym space is once again an issue as more and more people are interested in indoor sports in the colder months when being outside isn't as desirable. The Library was under budget as it didn't spend all of the amounts budgeted for architectural fees. After a feasibility study was completed to determine if the public would support a \$4 million bond issue, it was determined the monetary support was available. Therefore, the architectural fees weren't needed. The Library Board and the City Council have subsequently decided to move forward with a remodel which would make the existing space more efficient and able to provide more services to the public. The public safety function disbursed \$108,437 less than the final budgeted amount, mainly due to a decrease in spending for the Polk County Sheriff's contract, conservative spending by both the Fire and Rescue Departments and less engineering fees in the Building Department, which were more than offset by an increase for the purchase of an ambulance. In addition, two shared paramedic/fire fighters were budgeted but were hired later than originally projected, resulting in a significant decrease in personnel costs for fiscal year 2013. The public works function was also under budget by \$409,465. Wages alone accounted for over \$104,000 of this savings, mainly due to savings in wages because of the large decrease in overtime as well as three of the more tenured employees retired and were replaced by new employees. Snow removal continues to be one of those moving targets when planning for personnel costs for the Iowa winters. The Special Revenue, Road Use Tax Fund also disbursed over \$294,000 less than budgeted due to the timing of some of the street projects which will now be completed in fiscal year 2014. Road use tax funds also account for some of the contracted snow removal costs and smaller street projects. The balances are carried over from year to year to facilitate larger projects when necessary. The debt service function was \$137,920 less than budgeted because it was originally expected the ambulance purchased in fiscal year 2012 would be reimbursed from the Debt Service Fund but, in the end, it came out of ending balances. As well, almost \$68,000 was saved due to a refinancing in fiscal year 2012. The capital projects function typically is under budget as the progress on these large projects is hard to estimate due to weather conditions or other outside factors beyond the normal control of the contractors. The capital projects function was over \$2.891 million less than budgeted. This was mainly due to the timing of the SE Main Street project. As well, water, roads, the GCC, parks and sewer all experienced major variances. The business type activities function, i.e., water, sewer and solid waste, was \$278,785 under budget. The Water Department accounted for \$39,666 of this variance. Plant repairs, vehicles and equipment, mains and hydrants, sales tax, utilities, miscellaneous, tools and contracts all came in lower than originally estimated. Plant repairs were more than \$19,000 over budget as the old Jordan plant was refurbished and brought back on-line. Meters and accessories, lime removal, chemicals and testing were over budget, but savings in other areas offset these overages. The sewer utility accounted for \$110,814 of this variance. Equipment maintenance, contracts, line maintenance and utilities came in under budget. Sewer tapping fees also came in \$61,342 under budget due to a proposed developer agreement payoff which wasn't negotiated. Solid waste was also under budget by \$8,304. The newly formed storm water utility fee was also \$70,000 under budget. These savings will be combined in fiscal year 2014 to either facilitate larger projects or pay off more of the storm water capital improvement debt. Overall, spending was \$4,070,382 less than the final budgeted amounts.

The budget to year-end receipts was also reviewed and the results are as follows. There always seems to be a little variation in property tax budgeted versus those received because of the timing of the payments and the actual payment of taxes. This accounts for the difference of \$102,818. Obviously, if someone doesn't pay their taxes, the City doesn't receive them, at least until they are finally paid in one manner or another. Franchise tax, mobile home tax, utility replacement and hotel/motel tax all vary depending on the actual underlying receipt received for

those services. Other city tax was down \$42,669 because of reductions in the mobile home tax and utility replacement tax. Licenses and permits were over budget by \$101,735 as more permits were issued in fiscal year 2013. Use of money and property was over the amount budgeted by \$15,824. Intergovernmental receipts were \$333,358 more than budgeted due to \$14,686 in road use tax funds, \$298,268 in Federal stimulus and IDOT reimbursements for the Highway 44 Project, \$4,700 in Library tax from Polk County and \$16,438 in parks, roads and franchise fees. Charges for service were also over by \$282,447. Sewer and solid waste collections were all higher than originally estimated due to an increase in usage. Fire and rescue actually received \$4,352 less in fees than anticipated as the number of ambulance and fire calls seem to fluctuate from year to year, but less may be recovered during this tough economic climate. The City entered into a new agreement with a collection agency in early 2009 to facilitate the percentage of fees actually collected for these calls. The City Council will continue to consider the hardship cases and will waive fees if the situation warrants it. There have been some write-offs this year. Building development fees increased \$26,442 more than originally projected. Again, housing is higher than originally anticipated. Lastly, parks didn't quite meet its receipt expectations by about \$14,000. Programming continues to increase as more and more people are taking advantage of the services the City is offering but as some kids get older, they are more involved in school activities. Special assessments were \$99,663 more than budgeted due to the timing of capital projects and when the developers pay their portion of the assessments. Road development fees are contingent upon the timing of projects as well. Miscellaneous receipts were \$8,755 more than budgeted. This was received from liquor payments, miscellaneous sales, refunds, cemetery lot sales, ticket fines, state assistance, fire auxiliary and library fees. Overall, the City received \$905,376 more than budgeted.

## DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$25.265 million of bonds and other long-term debt outstanding as compared to approximately \$21.358 million at June 30, 2012, as shown below. In addition, approximately \$23.070 million was outstanding at June 30, 2011, approximately \$24.934 million was outstanding at June 30, 2010 and approximately \$16.392 million was outstanding at June 30, 2009.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2013	2012
General obligation bonds	\$ 19,405	14,770
Revenue bonds	5,595	6,182
Loan agreements	99	149
Lease-purchase agreements	166	257
Total	\$ 25,265	21,358

Debt increased in fiscal year 2010 because of the \$10,000,000 bond issue in November 2009. As stated above, this bond was issued to finance the following projects: demolition of the elevator buildings (\$270,000), the GCC HVAC project (\$463,000), the Comprehensive Plan (\$85,000), Map updates (\$50,000), Phase I Storm Water Implementation (\$70,000), SE Capitol City Pavement repairs (\$165,000), E 1<sup>st</sup> Street Improvements 2009 (\$1,300,000), SE 37<sup>th</sup> Overlay (\$625,000), S James Improvements (\$1,700,000), NW 142<sup>nd</sup> and 82 Ave overlay (\$100,000), NW 78<sup>th</sup> overlay (\$50,000), Gateway Dr. Extension (\$270,000), 1<sup>st</sup> Street (Highway 44) (\$2,772,000), Outfall Trunk Sewer (\$1,400,000), water main extension and water tower painting (\$370,000) and QT Improvements (\$22,500). The rest was either part of the bonding fees or was expended on other infrastructure improvements. In addition, a \$347,310 lease was executed for the purchase of a street sweeper and an end loader in fiscal year 2013. The SRF loans for the water and waste water plants were also refinanced due to low interest rates. Other than the increase for the bond issue in fiscal year 2010 and the lease, the outstanding debt has decreased because the required payments were made. Prior year debt includes a \$5.2 million bond issue in fiscal year 2008.

\$700,000 of the proceeds from this issue was used to purchase parkland south and west of the new Northridge Elementary School. This purchase helped to facilitate a joint driveway with the school that will also be extended to service the parkland. As this parkland is developed, the City and school will develop another 28E agreement for the use of this property similar to what is already in place for South Prairie Elementary School and the current Sports Complex. The remaining \$4.5 million was used to finance the 54<sup>th</sup> Avenue, South 6<sup>th</sup> Street and South 11<sup>th</sup> Street road improvement projects. In August of 2011, the City initiated the procedures for refinancing the \$1,250,000 of debt remaining from the 2002 \$3.2 million bond issue. This refinancing saved the City \$73,957 of interest. In March 2013, the City initiated proceedings to refinance the remaining \$1,065,000 of the 2003 \$2.65 million bond issue. This refinancing saved the City \$77,530 in interest. The City also refinanced the State Revolving Loan funds for the Water and Sewer Plants twice in the last few years to save interest. This last fall, a \$6.0 million bond was issued to fund the reconstruction of SE Main Street (\$3,100,000), the North James Street overlay (\$385,000), a NW Transportation Study (\$100,000), Alley Improvements (\$75,000), NW 100<sup>th</sup> and SE 37<sup>th</sup> Street Improvements (\$656,000), Autumn Park Drainage Improvements (\$325,000), Chevalia Bridge and Trail work (\$110,000), SE 19<sup>th</sup> Street (\$700,000), NPDES permit (\$115,000) and general road improvements (\$497,615). In addition, the City continues to certify TIF debt to lower the amount of property tax needed for debt service. The amount of TIF debt certified for development and rebate agreements subject to annual appropriation at June 30, 2011 was approximately \$1,074,100, \$1,175,276 at June 30, 2012 and \$1,332,000 at June 2013.

The City's bond rating was reevaluated twice this year and the end result was continued great news for the City consistent with the original upgrade back in 2012 when the City was upgraded from A1 to Aa3. As reported by Moody's, "Moody's maintains the Aa3 rating on the City's outstanding general obligation debt, affecting \$21.0 million post sale."

Moody's assigns Aa3 rating to City of Grimes' (IA) General Obligation Refunding Bonds, Series 2013

Aa3 rating affects \$21.0 million of outstanding GO debt

Moody's Investors Service has assigned a Aa3 rating to the City of Grimes' (IA) General Obligation Refunding Bonds, Series 2013. Moody's maintains the Aa3 rating on the City's outstanding general obligation debt, affecting \$21.0 million post-sale.

#### SUMMARY RATING RATIONALE

The bonds are secured by the City's unlimited general obligation pledge. Proceeds of the bonds will be used to current refund the City's outstanding General Obligation Corporate Purpose Bonds, dated March 1, 2003 for expected interest savings. Assignment of the Aa3 rating reflects the City's modestly-sized but growing tax base with above average income levels, strong financial position and above average debt burden.

#### STRENGTHS

- Strong financial position characterized by conservative budgeting practices and ample reserves
- Growing tax base in the Des Moines (General Obligation rated Aa1) metropolitan area

#### CHALLENGES

- Loss of largest employer, although growth in other employers mitigates the impact
- Limited flexibility to increase the property tax rate
- Above average debt burden

## DETAILED CREDIT DISCUSSION

### GROWTH TO CONTINUE IN MODESTLY-SIZED DES MOINES AREA TAX BASE

The City's tax base is expected to continue to grow given a favorable location in the Des Moines metropolitan area, healthy local economy, and the presence of substantial land available for development. Grimes is located approximately 10 miles northwest of the Iowa (long term issuer rated Aaa with stable outlook) state capital of Des Moines with easy access to the Interstate 80 and Interstate 35 transportation corridors. The City's modestly-sized \$742 million tax base is primarily residential and has grown at a rapid average annual rate of 7.2% over the past five years. The City's population increased 61.7% to 8,246 between 2000 and 2010, mirroring similarly rapid population increases in recent decades. The City is bordered to the north and west by unincorporated land available for annexation. The City last annexed land in 2007 when it annexed 974 vacant acres in Dallas County (GO rated Aa2) all of which remain available for development.

The City has continued to exhibit strong growth throughout the economic downturn and management reports that development within both the residential and commercial/industrial sectors has accelerated recently. Recently, 218 residential lots were approved for development and a number of additional residential projected expected to come on line in the near term. Additionally, a developer is in the early stages of planning a sizeable 400 acre mixed use and residential development project that could substantially increase the City's population if the project goes forward. Recent commercial/industrial development includes a new Fed Ex (senior unsecured rated Baa1/stable outlook) facility that is expected to employ nearly 100. Notably, the City's largest employer, Gillotti Company, a construction firm that employed approximately 300, recently went out of business. Management reports that a new construction firm has taken over Gillotti's former office space. We believe the Gillotti closure does not pose a significant challenge given residents' access to other employment opportunities throughout the Des Moines metro area. Polk County's (GO rated Aaa/stable outlook) 4.8% unemployment rate in October 2012 approximates the state rate (4.6%) and remains well below the national rate (7.5%) for the same period. Resident income levels exceed state and national medians, with median family income representing 137.3% and 134.7% of the state and national medians, respectively, according to 2006 to 2010 estimates from the American Community Survey.

### CONSECUTIVE SURPLUSES RESULTING IN AMPLE GENERAL FUND RESERVES

Grimes' financial position is expected to remain strong due to the City's conservative budgeting practices and a pattern of growth in General Fund reserves. In fiscal 2012, the City's sixth consecutive surplus brought its General Fund cash-basis balance to \$3.7 million, or a substantial 78.4% of receipts. The City has a history of budgeting conservatively and yielding more favorable results. In fiscal 2012, positive revenue variances in property taxes and development-related receipts drove a \$235,000 surplus in the General Fund. The County had cautioned cities in Polk County to expect an average decrease of 4% in their valuations. As a result the City budgeted and spent conservatively, and further benefitted from continued tax base growth, despite the projection for a decline. For fiscal 2013, the City has again budgeted for a modest deficit, but expects balanced to modest surplus results. Going forward, while City Council has expressed an intent to no longer grow General Fund reserves, no specific plans have been implemented to spend down reserves.

Property taxes are the City's primary revenue source and account for approximately 70% of General Fund receipts. Public safety comprises the largest portion of General Fund expenditures, accounting for approximately one third of disbursements. Grimes contracts with Polk County for law enforcement services. Grimes levies the full state-imposed property tax cap of \$8.10 per \$1,000 of assessed valuation and fully utilizes the \$0.27 Emergency Levy. The City also utilizes separate levies for debt service and employee benefits, although management notes that the City has approximately \$150,000 of flexibility under the employee benefits levy. While the City has limited flexibility to increase property tax rates, management notes that the City Council may elect to increase or broaden the scope of its franchise fee, which currently stands at 1% for cable providers.



## ABOVE AVERAGE DEBT BURDEN WITH NEAR-TERM BORROWING PLANS

Grimes' debt burden is expected to remain above average but manageable given the City's stable tax base and strong financial management practices. Direct debt represents an above average 3.0% of full value while overall debt, primarily consisting of the City's share of Polk County and Dallas Center-Grimes Community School District (GO rated Aa3/positive outlook) debt, represents 5.6% of full value. Amortization is above average with 79.3% of principal retired within 10 years. The City does not have immediate plans to issue debt in the next two years. All of the City's debt is fixed rate and the City is not party to any derivative or swap agreements.

## WHAT COULD CHANGE THE RATING - UP

- Substantial tax base expansion
- Maintenance of ample fund balance and liquidity

## WHAT COULD CHANGE THE RATING - DOWN

- Material declines in fund balance and liquidity to below similarly rated entities
- Deterioration of the City's tax base or demographic profile
- Material increases in debt burden

## KEY STATISTICS

2010 Census population: 8,246 (61.7% increase since 2000)  
2012 Full valuation: \$742 million  
2006-2010 Per capita income: \$28,789 (113.6% of IA; 105.3% of U.S.)  
2006-2010 Median family income: \$84,842 (137.3% of IA; 134.7% of U.S.)  
Polk County unemployment (October 2012): 4.8%  
Fiscal 2012 General Fund balance (cash basis): \$3.7 million (78.4% of revenues)  
Debt burden: 5.6% (3.0% direct)  
Outstanding GO debt: \$21.0 million

The City's outstanding general obligation debt, including annually appropriated rebate agreements of \$2,074,965, total approximately \$21.74 million and is significantly below its constitutional debt limit of approximately \$35.59 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Grimes' elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of the factors the City Council will have to consider is a potential increase in garbage rates. In the past, tax receipts have been used to subsidize this Enterprise Fund. As well, the City Council has enacted a storm water utility fee and will now need to prioritize the maintenance and repairs needed to the water ways throughout Grimes. In addition, this fee will be used to pay for the NPDES Phase II Stormwater Regulations. As more and more regulations are being put in place to regulate the water going into streams and lakes, the costs to manage these requirements continue to escalate. Most of the metro cities have a storm water utility in place which pays for these costs.

The City's valuation continues to significantly increase. Valuation, excluding TIF designated areas, rose from \$481,415,782 in fiscal year 2009 to \$548,084,271 in fiscal year 2010, \$622,875,532 in fiscal year 2011, \$653,675,782 in fiscal year 2012, \$671,363,180 in fiscal year 2013 and is now \$704,953,038 for fiscal year 2014. This is an increase of 46.4% over fiscal year 2009, 28.6%, or \$156,868,767, over fiscal year 2010, 13.2%, or \$82,077,506, over fiscal year 2011, 7.8%, or \$51,277,256, over fiscal year 2012 and 5%, or \$33,589,858, over fiscal year 2013. General property tax receipts are projected to increase \$437,113 in fiscal year 2014. Building permits have remained relatively steady, with 131 permits issued in fiscal year 2005 with a total value of \$21,646,778. In fiscal year 2006, there were 102 single-family permits issued with a total value of \$23,445,036 and there were 120 single family permits issued in fiscal year 2007 with a

total value of \$15,254,370 for new construction. In fiscal year 2008, there were 138 single family permits valued at \$17,342,083, 76 multi-family permits valued at \$7,794,715 and 23 commercial permits valued at \$9,781,523. In fiscal year 2009, there were 92 single family permits valued at \$12,937,435, 16 multi-family permits valued at \$1,260,000 and 4 commercial permits valued at \$2,321,915. In fiscal year 2010, there were 228 single family permits valued at \$32,040,289, 116 multi-family units valued at \$7,719,604 and 3 commercial permits valued at \$10,108,383. In fiscal year 2011, there were 98 single family permits valued at \$13,735,402, 7 multi-family permits valued at \$725,322 and 6 commercial permits valued at \$13,319,979. In fiscal year 2012, there were 8 multi-family permits valued at \$3,879,960, 4 commercial permits valued at \$9,191,831 and 115 single family permits valued at \$16,720,225 and there were 143 single family permits valued at \$5,335,157 in fiscal year 2013. Consistent with all of the budget variances due to the increase in building, these numbers reaffirm the increases. It should be noted most of the existing plats were being built out in fiscal year 2012, but there were a few significant actions taken by developers. First was the Autumn park rezone which rezoned 97.8 acres from R-2 60, R-2 70, R-3 to R-4 (Planned Residential Development District) and 14.8 acres remained C-2 (General and Highway Service Commercial District). The final plat 2 Chevalia Trace Plat 2 consists of 8.1 acres with 29 single family lots and Grimes Lots, LLC. Autumn Park Plat 1 consists of 17.31 acres with 43 lots. In addition, economic incentives have been provided for Hubbell and ServPro. A few more are being negotiated to facilitate further economic growth. In fiscal year 2013, however, there was a spur in platting and the following were approved: Beaverbrooke West Plat 9, 129 lots, Bridge Creek Plat 4, 1 lot, Silkwood Meadows, 30 lots, Putney Plat, 1 lot, Meadowlark South P2, 20 lots, Autumn Park P2, 39 lots, Autumn Park P2, 57 lots, Chevalia Valley Lot 43 PUD, 52 units, and North Point Outlot Y, 22 lots.

In addition, the economy is a factor. The following data is from the 2010 census conducted by the U.S. Census Bureau. Our population increased 61.8% to 8,246! This makes us the 8<sup>th</sup> fastest growing city in the State of Iowa.

<b>Characteristics -</b>	<b>Number</b>	<b>Percent</b>	<b>U.S.</b>
In labor force (population 16 years and over)	3,006	83.8	63.9%
Mean travel time to work in minutes (population 16 years and over)	20.0	(X)	25.5
Median household income (dollars)	56,275	(X)	41,994
Median family income (dollars)	60,847	(X)	50,046
Per capita income (dollars)	23,712	(X)	21,587
Families below poverty level	35	2.4	9.2%
Individuals below poverty level	166	3.3	12.4%
<b>Housing Characteristics</b>	<b>Number</b>	<b>Percent</b>	<b>U.S.</b>
Single-family owner-occupied homes	1,119	100.0	
Median value (dollars)	119,500	(X)	119,600
Median of selected monthly owner costs	(X)	(X)	
With a mortgage	1,123	(X)	1,088
Not mortgaged	348	(X)	295

(X) Not applicable.

Source: U.S. Census Bureau, Summary File 1 (SF 1) and Summary File 3 (SF 3)

- The City of Grimes currently has continuing projects under construction, as follows: The ASR (aquifer storage recovery) well project is still underway. This project, if successful, could provide the needed water storage to delay potential improvements to the water plant by 3-5 years. The premise of this project is that the water plant can pump extra water into this well for storage during those times of year when water consumption is lower than the capacity of the plant. During times when the plant is at capacity, water can be pumped from the storage well to provide additional water into the system so increasing the capacity of plant can be delayed. This also provides additional redundancy and additional sources in the event the supply from the wells is

compromised for a short period of time. This project had to be put on hold during the drought because the City didn't want to compromise any of the shallow wells by pumping the water needed to test the ASR. This project is expected to resume this fall. A new 2,800 foot Jordan well was also let at a cost of a little over \$2 million. This well is not subject to the drought conditions. This well is currently being constructed at the water plant located off of NE James Street. The \$8.0 million project for the widening and complete replacement of East/West 1<sup>st</sup> Street (Highway 44) started in May 2010 experienced unexpected delays with the above average rainfalls. The eastern half of this improvement project was delayed and was completed by late November of last year. The South James Street project was completed. The NE Edgewood Drive water main project, the Gateway Drive extension and the signals at SE 11<sup>th</sup> Street are now completed. The Outfall Trunk sewer project was completed to meet the capacity requirements in the eastern sewer extending from the Wastewater plant along Taylor Estates and the water way improvements needed to increase the capacity of the creek for large storm events. Over the last four years, the demolition of the elevator buildings, the GCC HVAC project, the Comprehensive Plan, Map updates, Phase I Storm Water Implementation, SE Capitol City Pavement repairs, E 1<sup>st</sup> St Improvements 2009, SE 37<sup>th</sup> Street Overlay, NW 142<sup>nd</sup> and 82<sup>nd</sup> Ave overlay, NW 78<sup>th</sup> overlay, water tower painting, QT Improvements, the South 19<sup>th</sup> Street Extension/Little Beaver Assessment, Grimes Mapping, Phase II Storm Water Permit, Grimes Storm Sewer Mapping, Xenia Water Agreement, South 6<sup>th</sup> Street Improvements and Destination Drive street improvements have all been completed. A new Historical room was completed as an Eagle Scout project and a church is leasing and has renovated three rooms and now will be adding a fourth which will be open to public use for receptions or large meetings. The City also completed a project adding 704 new spaces to the existing Sunnyhill Cemetery. The project also included the extension of the existing roads, a berm and landscaping, as well as a new parking lot on the south side of the area. The green space to the south of the existing cemetery will be used for soccer and flag football practices. In fiscal year 2011, City Council let a \$855,000 project for the grading, seeding and irrigation of the new North Sports Complex. This will add more softball and soccer fields to help alleviate an already overloaded South Sports Complex and to keep up with the rapid growth of one of the fastest growing cities in the State of Iowa. Unfortunately, this project was delayed last year and again this year due to the need to stop irrigation during the drought. The first project stated on this long list would have provided the needed additional water so conservation would not have been needed. The SE Main Street project is now underway and was a result of the \$6,000,000 bond issue referenced above. This will provide for the construction of the road and utilities on SE Main. Last fall, the Chevalia Bridge project was awarded that added a bridge and trail along the north central part of Grimes. A water main replacement project was started as well to replace certain areas identified as having numerous water main breaks over the last several years. Temporary signals were installed at SE James Street and SE 37<sup>th</sup> Street as well as some additional paving projects.

In a prior year, the City of Grimes completed the annexation of 974 acres in Dallas County. In November 2006, the City completed its first voluntary annexation, which included a portion being involuntarily annexed. Also, 169.71 acres were annexed on the NE corner of Highway 141 and Highway 44. In addition, two smaller annexations were completed, both being less than one acre. The addition of over 1,145 acres puts the City in a strong position for economic growth. The City continues to look at additional areas to the west and north to facilitate future development.

In 2010, the City Council extended a ten year non-annexation agreement with the City of Urbandale. This agreement was basically the extension of the previous agreement. However, the westerly line was extended one mile due west. In the next few years, the non-annexation agreements with the cities of Johnston, Granger, Dallas Center and Waukee will be renegotiated to determine future boundary lines. Johnston and Grimes have both agreed upon the border on the east of Grimes. All land along the east edge of Grimes is contiguous with Johnston or Urbandale, as well as land to the south of Grimes.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget for governmental activities are \$8.988 million, decreasing from the final fiscal year 2013 actual operating receipts for governmental activities of \$9.435 million. The decrease is primarily caused by a reduction in intergovernmental receipts as a result of the Highway 44 project having been substantially completed during fiscal year 2013 and, of course, the \$6,000,000 bond issue. Property taxes (resulting from the increase in total valuations) increased \$437,113. \$35,729 more in property tax for debt service was certified because although the interest is less over time as payments are made on existing bond issues, the \$6,000,000 bond issue's payments start in fiscal year 2014. Also, \$176,043 less in TIF was certified than was budgeted in fiscal year 2013. Licenses and permits are budgeted to be approximately \$130,000 more than in fiscal year 2013 as this year promises to be one of our busiest years. The City Council also levied \$87,500 more in employee benefits to mitigate the overall tax impact on the General Fund and keep the tax rate the same. Water receipts are budgeted higher than actual fiscal year 2013 receipts by \$84,797. However, this number may again be too low as the receipts in fiscal year 2012 came in higher than originally estimated. Sewer is budgeted \$140,211 lower than the actual receipts in fiscal year 2013 and it's apparent that this may be greatly underestimated as well. All of these numbers will be consistently monitored and amended if necessary. As always, when the budget is certified in March of each year, the actual numbers of the current budget aren't known so receipts are always estimated conservatively. Historically, actual receipts have exceeded budgeted receipts, with limited exceptions. The City will use these receipts to finance programs it currently offers, complete the capital improvement projects in process, initiate new capital improvement projects and plan for future projects. Budgeted disbursements, disregarding capital improvements and debt service, are expected to increase \$1,384,426 from actual disbursements of \$4.820 million to \$6.204 million, or 28.7%. Some of the larger increases are accounted for in the Fire and Rescue Department where the full impact of the additional two full-time employees budgeted for fiscal year 2013, as well as an additional employee, result in an increase of \$306,001 over what was actually spent in fiscal year 2013. The Polk County Sheriff's contract results in about a \$36,000 increase. The purchase of a new snow plow accounts for a \$150,000 increase. Improvements to Glenstone Park account for \$200,000. The general park budget accounting for just realistic mowing and ground maintenance costs would be an increase of \$183,000 over fiscal year 2013 just because of the effects of the drought this last year and minimal mowing and seeding costs. The other larger increase is in RUT with a proposed almost \$400,000 increase due to more extensive road improvement projects. If all of the estimates are realized, the City's budgeted General Fund cash balance is expected to decrease \$126,131. It should be noted, however, the General Fund balance was expected to decrease \$75,652 in fiscal year 2013, but it actually increased \$520,480.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelley Brown, City Administrator, 101 North Harvey, Grimes, Iowa 50111 or by e-mail at [kelbrown@ci.grimes.ia.us](mailto:kelbrown@ci.grimes.ia.us).

## **Basic Financial Statements**

City of Grimes

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,771,301	732,094	17,823	-
Public works	1,401,187	-	789,686	-
Culture and recreation	869,581	144,527	32,336	-
Community and economic development	122,300	-	5,521	-
General government	655,158	50,029	35,382	-
Debt service	3,734,868	-	136,055	199,663
Capital projects	2,683,365	38,601	-	313,109
Total governmental activities	11,237,760	965,251	1,016,803	512,772
Business type activities:				
Water	1,671,876	2,090,203	-	-
Sewer	904,413	1,460,411	-	-
Solid waste	304,196	256,690	-	-
Storm water	-	145,595	-	-
Total business type activities	2,880,485	3,952,899	-	-
Total	\$ 14,118,245	4,918,150	1,016,803	512,772

**General Receipts and Transfers:**

Property and other city tax levied for:	
General purposes	
Debt service	
Tax increment financing	
General obligation refunding bond proceeds, including premium of \$43,583 and net of \$9,450 of issuance costs	
General obligation bond proceeds, including premium of \$112,165 and net of \$49,250 of issuance costs	
Unrestricted interest on investments	
Transfers	
Total general receipts and transfers	
Change in cash basis net position	
Cash basis net position beginning of year	
Cash basis net position end of year	

**Cash Basis Net Position**

Restricted:	
Debt service	
Streets	
Urban renewal purposes	
Capital projects	
Other purposes	
Unrestricted	

**Total cash basis net position**

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,021,384)	-	(1,021,384)
(611,501)	-	(611,501)
(692,718)	-	(692,718)
(116,779)	-	(116,779)
(569,747)	-	(569,747)
(3,399,150)	-	(3,399,150)
(2,331,655)	-	(2,331,655)
(8,742,934)	-	(8,742,934)
-	418,327	418,327
-	555,998	555,998
-	(47,506)	(47,506)
-	145,595	145,595
-	1,072,414	1,072,414
(8,742,934)	1,072,414	(7,670,520)
4,080,881	-	4,080,881
1,507,320	-	1,507,320
1,335,445	-	1,335,445
1,084,133	-	1,084,133
6,062,915	-	6,062,915
16,483	17	16,500
340,000	(340,000)	-
14,427,177	(339,983)	14,087,194
5,684,243	732,431	6,416,674
6,336,344	3,032,042	9,368,386
\$ 12,020,587	3,764,473	15,785,060
\$ 2,262,972	244,553	2,507,525
638,139	-	638,139
26,215	-	26,215
4,441,763	-	4,441,763
449,206	-	449,206
4,202,292	3,519,920	7,722,212
\$ 12,020,587	3,764,473	15,785,060

City of Grimes

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2013

	Special Revenue		
	General	Road Use Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 3,389,301	-	-
Tax increment financing	-	-	1,335,445
Other city tax	204,179	-	-
Licenses and permits	423,560	-	-
Use of money and property	22,783	-	-
Intergovernmental	56,868	789,686	-
Charges for service	437,434	-	-
Special assessments	-	-	-
Miscellaneous	54,915	-	-
Total receipts	4,589,040	789,686	1,335,445
Disbursements:			
Operating:			
Public safety	1,758,695	-	-
Public works	1,081,611	319,576	-
Culture and recreation	860,796	-	-
Community and economic development	122,300	-	-
General government	655,158	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	4,478,560	319,576	-
Excess (deficiency) of receipts over (under) disbursements	110,480	470,110	1,335,445
Other financing sources (uses):			
General obligation refunding bond proceeds, including premium of \$43,583 and net of \$9,450 of issuance costs	-	-	-
General obligation bond proceeds, including premium of \$112,165 and net of \$49,250 of issuance costs	-	-	-
Operating transfers in	470,000	-	-
Operating transfers out	(60,000)	(99,364)	(1,331,673)
Total other financing sources (uses)	410,000	(99,364)	(1,331,673)
Net change in cash balances	520,480	370,746	3,772
Cash balances beginning of year	3,681,812	267,393	22,443
Cash balances end of year	\$ 4,202,292	638,139	26,215
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	-	-
Streets	-	638,139	-
Urban renewal purposes	-	-	26,215
Other purposes	-	-	-
Unassigned	4,202,292	-	-
Total cash basis fund balances	\$ 4,202,292	638,139	26,215

See notes to financial statements.



Debt Service	Capital Projects	Nonmajor	Total
1,507,320	-	487,401	5,384,022
-	-	-	1,335,445
-	-	-	204,179
-	-	-	423,560
1	39,302	5,521	67,607
136,054	292,159	8,700	1,283,467
-	-	-	437,434
199,663	-	-	199,663
-	20,249	24,414	99,578
1,843,038	351,710	526,036	9,434,955
-	-	12,606	1,771,301
-	-	-	1,401,187
-	-	8,785	869,581
-	-	-	122,300
-	-	-	655,158
3,734,868	-	-	3,734,868
-	2,683,365	-	2,683,365
3,734,868	2,683,365	21,391	11,237,760
(1,891,830)	(2,331,655)	504,645	(1,802,805)
1,084,133	-	-	1,084,133
-	6,062,915	-	6,062,915
981,037	850,000	-	2,301,037
-	-	(470,000)	(1,961,037)
2,065,170	6,912,915	(470,000)	7,487,048
173,340	4,581,260	34,645	5,684,243
2,089,632	(139,497)	414,561	6,336,344
2,262,972	4,441,763	449,206	12,020,587
2,262,972	-	-	2,262,972
-	-	-	638,139
-	-	-	26,215
-	4,441,763	449,206	4,890,969
-	-	-	4,202,292
2,262,972	4,441,763	449,206	12,020,587

City of Grimes

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise			
	Water	Sewer	Nonmajor	Total
Operating receipts:				
Charges for service	\$ 2,090,203	1,460,411	402,285	3,952,899
Operating disbursements:				
Business type activities	1,265,124	496,957	304,196	2,066,277
Excess of operating receipts over operating disbursements	825,079	963,454	98,089	1,886,622
Non-operating receipts receipts (disbursements):				
Interest on investments	17	-	-	17
Debt service	(406,752)	(407,456)	-	(814,208)
Net non-operating receipts (disbursements)	(406,735)	(407,456)	-	(814,191)
Excess of receipts over disbursements	418,344	555,998	98,089	1,072,431
Transfers in	-	-	60,000	60,000
Transfers out	(200,000)	(200,000)	-	(400,000)
Total transfers in (out)	(200,000)	(200,000)	60,000	(340,000)
Change in cash balances	218,344	355,998	158,089	732,431
Cash balances beginning of year	1,445,347	1,579,574	7,121	3,032,042
Cash balances end of year	\$ 1,663,691	1,935,572	165,210	3,764,473
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 156,673	87,880	-	244,553
Unrestricted	1,507,018	1,847,692	165,210	3,519,920
Total cash basis fund balances	\$ 1,663,691	1,935,572	165,210	3,764,473

See notes to financial statements.

City of Grimes  
Notes to Financial Statements  
June 30, 2013

**(1) Summary of Significant Accounting Policies**

The City of Grimes is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer, solid waste and storm water utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Grimes has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Grimes (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

**Blended Component Unit**

Grimes Fire and Rescue Association is legally separate from the City but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the nonmajor governmental funds.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Polk County Assessor's Conference Board and the Polk County Joint E911 Service Board.

The City also participates in the following jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Des Moines Area Metropolitan Planning Organization and the Joint County/Municipal Disaster Services and Emergency Planning Administration.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

## (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$59,114 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

## (3) Bonds Payable and Other Financing Arrangements

Annual debt service requirements to maturity for general obligation bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2014	\$ 1,600,000	753,468	609,000	97,914	2,209,000	851,382	3,060,382
2015	1,695,000	643,868	632,000	87,256	2,327,000	731,124	3,058,124
2016	1,750,000	593,806	657,000	76,195	2,407,000	670,001	3,077,001
2017	1,545,000	538,218	684,000	64,698	2,229,000	602,916	2,831,916
2018	1,590,000	481,898	710,000	52,728	2,300,000	534,626	2,834,626
2019-2023	7,170,000	1,492,125	2,303,000	81,618	9,473,000	1,573,743	11,046,743
2024-2028	2,575,000	327,780	-	-	2,575,000	327,780	2,902,780
2029-2032	1,480,000	91,507	-	-	1,480,000	91,507	1,571,507
Total	\$ 19,405,000	4,922,670	5,595,000	460,409	25,000,000	5,383,079	30,383,079

### General Obligation Refunding Bonds

On April 15, 2013, the City issued \$1,050,000 of general obligation refunding bonds for the current refunding of \$1,250,000 of general obligation refunding bonds issued March 1, 2003. The bonds bear interest at 2.00% per annum and mature on June 1, 2018. The refunding was undertaken to reduce total debt service payments over the next five years by \$77,530 and resulted in an economic gain of \$75,994.

### Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$5,976,000 of water revenue bonds issued in December 2000. Proceeds from the bonds provided financing for the construction of water main extensions. The bonds are payable solely from water customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the bonds is \$3,133,441. For the current year, principal and interest paid and total customer net receipts were \$405,150 and \$825,079, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,372,000 of sewer revenue bonds issued in December 2000. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2021. Annual principal and interest payments on the bonds are expected to require less than 39% of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,921,968. For the current year, principal and interest paid and total customer net receipts were \$367,310 and \$963,454, respectively.

On June 1, 2013, the Iowa Finance Authority reduced the interest rates on the water and sewer revenue bonds to 1.75% per annum. The agreements also require a .05% annual servicing fee. The resolutions providing for the issuance of the water and sewer revenue bonds issued under a loan agreement between the City, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. include the following provisions:

- (1) The bonds will only be redeemed from the future earnings of the enterprise activities and the bond holders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to separate water and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (3) User rates shall be established at a level which produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

#### Loan Agreement

On March 22, 2005, the City entered into a loan agreement with a local bank to borrow an amount not to exceed \$500,000 to purchase a fire truck. The amount actually borrowed totaled \$498,681. The loan bears interest at rates ranging from 3.05% to 4.58% per annum and matures on July 1, 2014. The City began making annual principal payments of \$50,000 plus interest beginning June 1, 2006. The loan will be repaid from collections of a debt service levy on all taxable property in the City.

A summary of the annual principal and interest requirements to maturity for the loan agreement is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	4.48%	\$ 50,000	4,470	54,470
2015	4.58	48,681	2,230	50,911
Total		\$ 98,681	6,700	105,381

### Lease-Purchase Agreements

On July 15, 2010 and August 9, 2011, the City entered into lease-purchase agreements to lease a truck, snow plow, wheel loader and sweeper. The following is a schedule of the future minimum lease payments and the present value of net minimum lease payments under the agreements in effect at June 30, 2013:

Year Ending June 30,	Amount
2014	\$ 73,227
2015	99,216
Total minimum lease payments	172,443
Less amount representing interest	(6,735)
Present value of net minimum lease payments	<u>\$ 165,708</u>

Payments under lease-purchase agreements totaled \$99,215 during the year ended June 30, 2013.

#### **(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$134,221, \$113,548 and \$95,849, respectively, equal to the required contributions for each year.

#### **(5) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 24 active and 1 retired members in the plan. Retired participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$400 for single coverage and \$1,100 for family coverage. For the year ended June 30, 2013, the City contributed \$277,118 and \$7,465 of contributions were made by plan members eligible for benefits.



**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 75,000
Compensatory time	27,000
Sick leave	49,000
Total	<u>\$ 151,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	<u>\$ 470,000</u>
Debt Service	Special Revenue:	
	Road Use Tax	99,364
	Tax Increment Financing	881,673
		<u>981,037</u>
Capital Projects	Special Revenue:	
	Tax Increment Financing	450,000
	Enterprise:	
	Water	200,000
	Sewer	200,000
		<u>850,000</u>
Enterprise:		
Solid Waste	General	<u>60,000</u>
Total		<u>\$ 2,361,037</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$139,332.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation liability. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City self funds health coverage for its employees. The plan is funded by the City and is administrated by the City. The City assumes liability for the difference in deductibles from the plan for any amounts over \$250 for individual coverage and \$500 for family coverage. The City also self-insures the co-pay for amounts exceeding \$15 per office visit. Monthly payments of claims are paid from the City's General Fund. During the year ended June 30, 2013, the City transferred \$10,160 from the Special Revenue, Employee Benefits Fund to the General Fund to fund the fees and claims paid by the City.

**(9) Development and Rebate Agreements**

The City has entered into nine development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for the costs of certain infrastructure improvement projects constructed by the City as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for periods ranging from five to ten years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The maximum amount to be rebated under the development and rebate agreements is the lesser of actual project costs paid by the developer or \$2,638,199. The agreements do not include provisions for payment of interest.

During the year ended June 30, 2013, the City rebated \$534,341 of incremental property tax to developers. Resources were transferred from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund and the payment of this obligation was charged to the debt service function. The outstanding principal balance on these agreements at June 30, 2013 is \$1,636,272.

No bonds or notes were issued for these projects. To the extent there are insufficient tax increment receipts available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any interest.

An additional development agreement requires the City to reimburse future tapping fees as connections are made to the system for sanitary sewer extensions and sanitary sewer lift station costs paid by the developer. The maximum to be paid under this development agreement is the lesser of actual costs paid by the developer or \$434,402. The development agreement is in effect until fully reimbursed. During the year ended June 30, 2013, the City reimbursed the developer \$38,658 from sewer tapping fees in the Enterprise, Sewer Fund. The outstanding principal balance on this agreement at June 30, 2013 is \$238,693.

An additional development agreement requires the City to reimburse the costs of a railway line abandonment/removal, as well as the relocation of a run-around switch. The maximum to be paid under this development agreement is \$350,000. The development agreement requires payments of \$50,000 per year until paid in full. During the year ended June 30, 2013, the City paid \$50,000 from the Special Revenue, Road Use Tax Fund. The outstanding principal balance on this agreement at June 30, 2013 is \$200,000.

**(10) Economic Development Loan**

On January 10, 2006, the City approved an economic development loan agreement with Breeding True Value Hardware. The City loaned \$50,000 to assist in locating a store in the City. The loan bears interest at 2% per annum and is to be repaid in monthly installments of \$460 beginning in June 2006 for a period of ten years. As of June 30, 2013, the outstanding loan balance is \$15,628.

**(11) Education Facility and Community Provider Revenue Notes**

The City entered into a loan agreement, dated July 1, 2004, with the Des Moines Christian School Association to obtain funds to loan to the Association. Pursuant to the loan agreement, the City issued an Education Facility Revenue Note, Series 2004, dated October 1, 2004, for \$7,200,000 under Chapter 419 of the Code of Iowa and secured the note by assignment of the loan agreement to First Federal Bank, West Des Moines, Iowa. The proceeds of the note are to be paid directly to or at the direction of the Des Moines Christian School Association for paying project costs or retiring existing debt.

The City entered into a loan agreement, dated November 1, 2004, with Special Olympics Iowa, Inc. to obtain funds to loan to the nonprofit corporation. Pursuant to the loan agreement, the City issued a Community Provider Revenue Note, Series 2004, dated November 11, 2004, for \$1,400,000 under Chapter 419 of the Code of Iowa and secured the note by an assignment of the loan agreement to Bankers Trust Company, National Association, Des Moines, Iowa. The proceeds of the note are to be paid directly to or at the direction of Special Olympics Iowa, Inc. for payment of project costs.

The notes and the related interest are payable solely from payments derived pursuant to the loan agreements and from the properties which secure payment of the notes. The note principal and interest do not constitute liabilities of the City.

**(12) Senior Housing Revenue Refunding Notes**

The City entered into a loan agreement with the PHS Walnut Ridge, LLC to obtain funds to loan to the nonprofit corporation. The City, on August 14, 2012, authorized the issuance of not to exceed \$3,500,000 of Senior Housing Revenue Refunding Notes, Series 2012, under the provisions of Chapter 419 of the Code of Iowa. The proceeds of the note are to be paid directly to or at the direction of PHS Walnut Ridge, LLC for retiring existing debt. The notes and related interest are payable solely from revenue derived from a loan agreement and the note principal and interest do not constitute liabilities of the City.

**(13) Construction Commitments**

The City has entered into construction contracts totaling \$13,848,455. As of June 30, 2013, costs of \$9,758,978 had been paid on the contracts. The remaining \$4,089,477 will be paid as work on these projects progresses.

**(14) Subsequent Event**

On July 12, 2013, the City issued \$2,432,000 of Series 2013 water revenue bonds for the purpose of paying a portion of the cost of constructing improvements and extensions to the water system of the City. The principal and interest on the bonds are payable solely out of the future net revenues of the utility of the City.

### **Other Information**

City of Grimes

Budgetary Comparison Schedule  
of Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted	Net
Receipts:				
Property tax	\$ 5,384,022	-	-	5,384,022
Tax increment financing	1,335,445	-	-	1,335,445
Other city tax	204,179	-	-	204,179
Licenses and permits	423,560	-	-	423,560
Use of money and property	67,607	17	-	67,624
Intergovernmental	1,283,467	-	-	1,283,467
Charges for service	437,434	3,952,899	-	4,390,333
Special assessments	199,663	-	-	199,663
Miscellaneous	99,578	-	17,823	81,755
Total receipts	9,434,955	3,952,916	17,823	13,370,048
Disbursements:				
Public safety	1,771,301	-	12,606	1,758,695
Public works	1,401,187	-	-	1,401,187
Health and social services	-	-	-	-
Culture and recreation	869,581	-	-	869,581
Community and economic development	122,300	-	-	122,300
General government	655,158	-	-	655,158
Debt service	3,734,868	-	-	3,734,868
Capital projects	2,683,365	-	-	2,683,365
Business type activities	-	2,880,485	-	2,880,485
Total disbursements	11,237,760	2,880,485	12,606	14,105,639
Excess (deficiency) of receipts over (under) disbursements	(1,802,805)	1,072,431	5,217	(735,591)
Other financing sources (uses), net	7,487,048	(340,000)	-	7,147,048
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	5,684,243	732,431	5,217	6,411,457
Balances beginning of year	6,336,344	3,032,042	4,629	9,363,757
Balances end of year	\$ 12,020,587	3,764,473	9,846	15,775,214

See accompanying independent auditor's report.

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Budgeted Amounts		Final to
Original	Final	Net Variance
5,268,027	5,281,204	102,818
1,332,000	1,332,000	3,445
322,495	246,848	(42,669)
231,825	321,825	101,735
39,800	51,800	15,824
796,598	950,109	333,358
3,898,400	4,107,886	282,447
100,000	100,000	99,663
24,000	73,000	8,755
12,013,145	12,464,672	905,376
1,822,858	1,867,132	108,437
1,810,652	1,810,652	409,465
12,000	12,000	12,000
1,004,308	1,086,852	217,271
131,558	124,550	2,250
594,777	667,777	12,619
2,792,613	3,872,788	137,920
5,575,000	5,575,000	2,891,635
2,911,270	3,159,270	278,785
16,655,036	18,176,021	4,070,382
(4,641,891)	(5,711,349)	4,975,758
3,000,006	7,163,616	(16,568)
(1,641,885)	1,452,267	4,959,190
6,324,213	9,368,386	(4,629)
4,682,328	10,820,653	4,954,561

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City of Grimes

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,520,985. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.



## **Supplementary Information**

City of Grimes

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2013

	Employee Benefits	Economic Development Revolving Loan	Grimes Fire and Rescue Association
Receipts:			
Property tax	\$ 487,401	-	-
Use of money and property	-	5,521	-
Intergovernmental	-	-	-
Miscellaneous	-	-	17,823
Total receipts	487,401	5,521	17,823
Disbursements:			
Operating:			
Public safety	-	-	12,606
Culture and recreation	-	-	-
Total disbursements	-	-	12,606
Excess of receipts over disbursements	487,401	5,521	5,217
Other financing uses:			
Operating transfers out	(470,000)	-	-
Change in cash balances	17,401	5,521	5,217
Cash balances beginning of year	123,052	195,052	4,629
Cash balances end of year	\$ 140,453	200,573	9,846
<b>Cash Basis Fund Balances</b>			
Restricted for other purposes	\$ 140,453	200,573	9,846

See accompanying independent auditor's report.

Special Revenue			
FEMA Grant	Library	Rolow Memorial	Total
-	-	-	487,401
-	-	-	5,521
-	8,700	-	8,700
-	6,591	-	24,414
-	15,291	-	526,036
-	-	-	12,606
-	8,785	-	8,785
-	8,785	-	21,391
-	6,506	-	504,645
-	-	-	(470,000)
-	6,506	-	34,645
34,240	55,755	1,833	414,561
34,240	62,261	1,833	449,206
34,240	62,261	1,833	449,206

**Schedule 2**

## City of Grimes

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2013

	Enterprise		
	Solid Waste	Storm Water	Total
Operating receipts:			
Charges for service	\$ 256,690	145,595	402,285
Operating disbursements:			
Business type activities	304,196	-	304,196
Excess (deficiency) of operating receipts over (under) operating disbursements	(47,506)	145,595	98,089
Transfers in	60,000	-	60,000
Change in cash balances	12,494	145,595	158,089
Cash balances beginning of year	7,121	-	7,121
Cash balances end of year	\$ 19,615	145,595	165,210
<b>Cash Basis Fund Balances</b>			
Unrestricted	\$ 19,615	145,595	165,210

See accompanying independent auditor's report.

## **City of Grimes**

City of Grimes  
Schedule of Indebtedness  
June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose	Mar 1, 2003	2.00-4.00%	\$ 2,650,000
Corporate purpose	Aug 1, 2007	4.00-4.10	5,200,000
Corporate purpose	Nov 1, 2009	1.50-5.40	10,000,000
Corporate purpose	Sep 1, 2011	0.60-1.50	1,250,000
Corporate purpose	Dec 1, 2012	2.00-2.50	6,000,000
Corporate purpose	Apr 15, 2013	2.00	1,050,000
Total			
Revenue bonds:			
Water	Dec 19, 2000	1.75% *	\$ 5,976,000
Sewer	Dec 19, 2000	1.75 *	5,372,000
Total			
Loan agreement:			
Fire truck	Mar 22, 2005	3.05-4.58%	\$ 498,681
Lease-purchase agreements:			
Truck and snow plow	Jul 15, 2010	3.95%	\$ 120,438
Wheel loader and sweeper	Aug 9, 2011	2.71	347,310
Total			

\* The Iowa Finance Authority reduced the interest rates on the water and sewer revenue bonds to 1.75% per annum as of June 1, 2013. The agreements also require a .05% annual servicing fee.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
1,250,000	-	1,250,000	-	47,040
3,815,000	-	315,000	3,500,000	154,310
8,720,000	-	605,000	8,115,000	406,403
985,000	-	245,000	740,000	11,100
-	6,000,000	-	6,000,000	-
-	1,050,000	-	1,050,000	-
<b>\$ 14,770,000</b>	<b>7,050,000</b>	<b>2,415,000</b>	<b>19,405,000</b>	<b>618,853</b>
3,205,000	-	309,000	2,896,000	96,150
2,977,000	-	278,000	2,699,000	89,310
<b>\$ 6,182,000</b>	<b>-</b>	<b>587,000</b>	<b>5,595,000</b>	<b>185,460</b>
<b>\$ 148,681</b>	<b>-</b>	<b>50,000</b>	<b>98,681</b>	<b>6,660</b>
49,053	-	24,052	25,001	1,937
208,287	-	67,580	140,707	5,646
<b>\$ 257,340</b>	<b>-</b>	<b>91,632</b>	<b>165,708</b>	<b>7,583</b>

City of Grimes

Bond Maturities

June 30, 2013

Year Ending June 30,	General Obligation							
	Corporate Purpose		Corporate Purpose		Corporate Purpose		Corporate Purpose	
	Issued Aug 1, 2007		Issued Nov 1, 2009		Issued Sept 1, 2011		Issued Dec 1, 2012	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2014	4.00%	\$ 330,000	3.25%	\$ 620,000	1.00%	\$ 245,000	2.00%	\$ 205,000
2015	4.00	340,000	3.75	640,000	1.25	245,000	2.00	270,000
2016	4.00	355,000	4.25	655,000	1.50	250,000	2.00	275,000
2017	4.00	370,000	4.65	680,000	-	-	2.00	280,000
2018	4.05	385,000	5.00	700,000	-	-	2.00	285,000
2019	4.05	405,000	5.00	725,000	-	-	2.00	290,000
2020	4.10	420,000	5.00	755,000	-	-	2.00	300,000
2021	4.10	440,000	5.15	785,000	-	-	2.00	305,000
2022	4.10	455,000	5.30	815,000	-	-	2.00	310,000
2023		-	5.35	850,000	-	-	2.00	315,000
2024		-	5.40	890,000	-	-	2.00	325,000
2025		-		-	-	-	2.00	330,000
2026		-		-	-	-	2.13	335,000
2027		-		-	-	-	2.00	345,000
2028		-		-	-	-	2.00	350,000
2029		-		-	-	-	2.13	355,000
2030		-		-	-	-	2.38	365,000
2031		-		-	-	-	2.50	375,000
2032		-		-	-	-	2.50	385,000
Total		<u>\$ 3,500,000</u>		<u>\$ 8,115,000</u>		<u>\$ 740,000</u>		<u>\$ 6,000,000</u>

See accompanying independent auditor's report.



Bonds			Revenue Bonds					
Corporate Purpose			Water			Sewer		
Issued Apr 15, 2013			Issued Dec 19, 2000			Issued Dec 19, 2000		
Interest			Interest			Interest		
Rates	Amount	Total	Rates	Total		Rates	Amount	Total
2.00% \$	200,000	1,600,000	1.75% \$	319,000		1.75%	\$ 290,000	609,000
2.00	200,000	1,695,000	1.75	330,000		1.75	302,000	632,000
2.00	215,000	1,750,000	1.75	342,000		1.75	315,000	657,000
2.00	215,000	1,545,000	1.75	355,000		1.75	329,000	684,000
2.00	220,000	1,590,000	1.75	367,000		1.75	343,000	710,000
	-	1,420,000	1.75	381,000		1.75	358,000	739,000
	-	1,475,000	1.75	394,000		1.75	373,000	767,000
	-	1,530,000	1.75	408,000		1.75	389,000	797,000
	-	1,580,000		-			-	-
	-	1,165,000		-			-	-
	-	1,215,000		-			-	-
	-	330,000		-			-	-
	-	335,000		-			-	-
	-	345,000		-			-	-
	-	350,000		-			-	-
	-	355,000		-			-	-
	-	365,000		-			-	-
	-	375,000		-			-	-
	-	385,000		-			-	-
\$ 1,050,000		19,405,000	\$ 2,896,000			\$ 2,699,000		5,595,000

City of Grimes

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Ten Years

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 5,384,022	5,145,434	5,033,717	4,461,334
Tax increment financing	1,335,445	1,161,927	1,060,037	812,070
Other city tax	204,179	243,855	226,812	215,732
Licenses and permits	423,560	345,021	261,512	349,221
Use of money and property	67,607	77,028	146,295	91,697
Intergovernmental	1,283,467	2,193,161	4,219,426	1,594,655
Charges for service	437,434	355,207	291,711	247,272
Special assessments	199,663	190,504	273,936	189,244
Miscellaneous	99,578	90,807	512,549	1,067,568
Total	\$ 9,434,955	9,802,944	12,025,995	9,028,793
Disbursements:				
Operating:				
Public safety	\$ 1,771,301	1,792,889	1,342,355	1,267,021
Public works	1,401,187	2,264,122	1,461,193	1,421,463
Health and social services	-	5,809	-	-
Culture and recreation	869,581	893,848	937,497	738,238
Community and economic development	122,300	122,548	114,011	112,859
General government	655,158	534,360	521,971	609,524
Debt service	3,734,868	3,666,018	2,150,932	1,631,804
Capital projects	2,683,365	5,094,990	6,624,078	7,150,402
Total	\$ 11,237,760	14,374,584	13,152,037	12,931,311

See accompanying independent auditor's report.

2009	2008	2007	2006	2005	2004
3,805,022	3,239,293	2,853,663	2,502,802	2,307,906	2,097,510
881,205	966,128	761,226	817,073	670,298	778,617
197,810	198,987	112,067	68,100	107,372	17,606
184,396	427,871	425,331	355,345	295,902	199,711
282,917	311,866	154,674	101,908	123,906	87,329
560,122	582,316	1,073,834	890,894	1,378,470	566,563
269,886	252,863	240,383	414,290	426,201	182,481
60,230	37,859	49,060	137,137	437,247	-
1,715,428	1,678,958	1,756,010	1,428,522	2,669,863	31,724
7,957,016	7,696,141	7,426,248	6,716,071	8,417,165	3,961,541
1,126,024	1,066,345	824,398	1,139,269	1,430,441	671,961
1,660,313	1,045,823	767,595	684,261	771,074	680,222
-	-	6,067	33,583	39,000	48,000
778,958	575,730	480,494	542,363	411,536	354,637
160,916	141,481	58,799	128,219	57,634	47,633
577,086	497,589	486,222	499,030	445,296	383,215
1,585,293	1,834,602	1,371,799	1,413,924	1,092,771	900,224
4,089,799	4,379,280	5,092,309	3,362,209	4,817,303	2,406,198
9,978,389	9,540,850	9,087,683	7,802,858	9,065,055	5,492,090

## **City of Grimes**



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Grimes, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 22, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Grimes' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Grimes' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Grimes' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Grimes' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Grimes' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


### The City of Grimes' Responses to the Findings


The City of Grimes' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Grimes' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Grimes during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 22, 2013

City of Grimes

Schedule of Findings

Year ended June 30, 2013

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas for the City:

- (1) Mail receipts - The same employee opens mail, posts collections and prepares the deposit slip. A review is performed, but the review is not documented.
- (2) Credit card disbursements - Statements and support are not reviewed by the City Council or an independent individual.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – The review will be documented going forward. As well, once additional personnel are hired, the employee who opens mail will not be posting or preparing the deposit slips.

Credit card statements will be reviewed by the Treasurer or the City Clerk going forward and the review will be documented.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Grimes

Schedule of Findings

Year ended June 30, 2013

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. The City has an approved policy/resolution for public purpose disbursements. However, this policy was not referenced to support the following disbursements:

Paid to	Purpose	Amount
Heavenly Delights	Staff incentive	\$ 16
Smashburger	Staff lunch	21
Wal-Mart	Staff birthday	7
Breadeaux	Staff lunch meeting	40
Wal-Mart	Supplies – cupcakes	3
Fareway	Staff lunch	168
The Radish	Lunch meeting	51
Cracker Barrel	Breakfast meeting	43
Cracker Barrel	Breakfast meeting	46
The Radish	Lunch meeting	51
Cracker Barrel	Breakfast meeting	44
Zales	Staff retirement	229
Cracker Barrel	Breakfast meeting	47
The Radish	Lunch meeting	34

The above amounts include the payment of sales tax totaling \$13. Chapter 422.5(5) of the Code of Iowa exempts the City from the payment of sales tax.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The City should ensure that sales tax is not being paid on any items purchased. Because the City has a resolution defining how certain items meet the test of serving a public purpose, the City should ensure this resolution is referenced on support for questionable items, when appropriate. The City should also ensure the public purpose for these items is documented on supporting documentation. For meetings held during meal times, the City should include the names of those attending and matters discussed as supporting documentation for the claims.

Response – The City will implement the proper procedures as recommended above for any items for which public purpose may be questionable. It is the intent of the City to provide the very best services to the citizens by not only investing in morale building and support items to its lean, efficient staff as well as make the most efficient use of all tax and other revenues received.

Conclusion – Response accepted.



City of Grimes

Schedule of Findings

Year ended June 30, 2013

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tom Armstrong, Mayor, Owner of Rainbow Play Systems of Iowa	Playground equipment	\$ 12,422

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Rainbow Play Systems of Iowa may represent conflicts of interest since the total transactions exceeded \$1,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will consult legal counsel and abide by their opinion of this matter.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Water and Sewer Revenue Bonds – No instances of non-compliance with the provisions of the revenue bond resolutions were noted.
- (9) Late Charges – The City did not remit sales tax collected to the State of Iowa timely and incurred late charges/interest of \$1,515.

Recommendation – The City should develop procedures to ensure sales tax collected by the City is remitted to the State in a timely manner to avoid late charges and interest.

Response – The City has developed a checklist to ensure all sales tax collected is paid in a timely manner.

Conclusion – Response accepted.

- (10) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid.

City of Grimes

Schedule of Findings

Year ended June 30, 2013

The City certified \$450,000 of estimated costs for anticipated future projects.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City’s TIF certifications, including the amount of TIF debt to be decertified, if any. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification.

Response – The City will ensure all TIF debt certification complies with Chapter 403 of the Code of Iowa and will include only allowable debt approved by the City Council prior to certification.

Conclusion – Response accepted.

- (11) Urban Renewal Annual Report – The Urban Renewal Annual Report was approved and certified to the Iowa Department of Management on or before December 1. However, the amount reported by the City as TIF debt outstanding was overstated by approximately \$81,800.

Recommendation – The City should ensure debt amounts reported on the Levy Authority Summary agree to the City’s records.

Response – The City will ensure the debt amounts reported on the Levy Authority Summary agree with the City’s records.

Conclusion – Response accepted.

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City of Grimes

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager  
Melissa J. Knoll-Speer, Senior Auditor II  
Kassi D. Adams, Staff Auditor  
Jessica L. Barloon, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA  
Deputy Auditor of State